

FINAL BILL REPORT

I 728

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Synopsis as Enacted

Brief Description: Public education and directing surplus state revenues to provide additional resources to support high standards of achievement for all students through class size reductions.

Sponsors: By People of the State of Washington.

Background: The Legislature appropriates money from the general fund for education and other purposes. Prior to the passage of Initiative 728, the nondedicated lottery and state collected property tax revenues were deposited in the state general fund.

Prior to the passage of Initiative 728, general fund-state revenues in excess of the state expenditure limit were deposited in the emergency reserve fund. If the emergency reserve balance exceeded 5 percent of annual general state revenues, the excess was deposited in the education construction fund. The education construction fund may be used for K-12 or higher education construction purposes.

Under Initiative 601, the state expenditure limit must be reduced when the cost of any state program or function is shifted from the state general fund or if money is transferred from the state general fund.

Summary: The fund in which the nondedicated lottery and state-collected property tax revenues are deposited is changed. The purposes for which those funds may be expended are changed. The distribution of the excess revenues from the emergency reserve fund is changed. Initiative 601 is amended.

State Lottery Proceeds. The nondedicated state lottery proceeds are deposited in two education funds: (1) education construction fund (existing fund) and (2) student achievement fund (new fund).

The lottery proceeds are distributed to these two funds as follows:

Fiscal Year 2002: 50 percent to the education construction fund and 50 percent to the student achievement fund.

Fiscal Years 2003 and 2004: 25 percent to the education construction fund and 75 percent to the student achievement fund.

After 2004: 100 percent to the education construction fund.

The new student achievement fund may be spent for the following purposes:

1. Create smaller classes in grades K-4 by hiring classroom teachers. (Includes non-employee related costs. Suggests that the state's goal be no more than 18 students per teacher in a K-4 class, to be phased in over several years.)

2. *Create smaller classes in certain grade 5-12 classes (such as high school writing).*
3. *Provide extended learning opportunities in grades K-12. (Includes extended year, week or day programs, tutoring programs, and all-day kindergarten. Funds may be used for extended learning teaching contracts but may not be used for salary increases or additional compensation for existing teaching duties.)*
4. *Professional development for educators. (Includes paid time for curriculum alignment, mentoring and other training programs.)*
5. *Early childhood (birth to five) programs.*
6. *Improvements or additions to school buildings to support the class size reductions or the extended learning opportunities.*

State Property Tax. *A portion of the state property tax is deposited in the student achievement fund and distributed to each school district based on prior year enrollment as follows:*

School Years 2001-02 through 2003-2004: *\$140 per full time equivalent student (FTE).*

School Year 2004-2005: *\$450 per FTE student.*

After 2004-2005: *\$450 per FTE student adjusted for inflation using the implicit price deflator.*

Emergency Reserve Fund. *If there are funds in excess of the 5 percent cap, then 75 percent of the excess funds are transferred to the student achievement fund and 25 percent back to the state general fund.*

When state-level funding of K-12 education (defined as maintenance and operations) reaches 90 percent of the national average of total funding from all sources per student, then further deposits from the excess emergency reserve fund to the student achievement fund are required only to the extent necessary to maintain the 90 percent level. The remaining excess emergency reserve funds go to the general fund and are subject to Initiative 601 expenditure limits and provisions.

Initiative 601. *Initiative 601 is amended by specifying that the deposit of the lottery and the state property tax into the education funds does not reduce the state expenditure limit.*

Fiscal Impact. *The initiative has three types of fiscal impacts: reductions to state general fund revenues due to transfers for education purposes; increases in revenues to school districts for specified purposes; and potential reductions in state amounts available for education construction purposes when compared with laws prior to January 1, 2001. The three types of fiscal impacts are addressed below and are based on the state revenue and K-12 enrollment forecasts.*

State general fund impacts: For the 2001-03 biennium, the net reduction to the state general fund is \$470 million. This decrease is due to the transfer of \$204 million of lottery revenues and a portion of state property tax revenues of \$265 million to the student achievement fund.

Revenues to school districts (student achievement fund): For the 2001-03 biennium, the increase in revenues to school districts from the student achievement fund is \$393 million. The components are as follows:

- \$265 million from the state collected property tax, and
- \$128 million of lottery revenues.
- These two revenue sources provide \$193.92 per FTE student in the 2001-02 school year and \$220.59 per FTE student in the 2002-03 school year.

Education construction fund: For the 2001-03 biennium, the initiative dedicates an estimated \$77 million of lottery revenues for education construction purposes.

The distribution of excess emergency reserve funds is changed, effective January 1, 2001. Excess emergency reserve funds are not deposited in the education construction account. Instead, 75 percent of the excess is directed to the student achievement fund and 25 percent is directed back to the state general fund.

Effective: January 1, 2001
July 1, 2001 (Section 4)